

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 TRSE-00 CIEP-01 FRB-03 OMB-01

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----- 120695

R 160825Z APR 76

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 9193

C O N F I D E N T I A L TAIPEI 2462

STATE PASS WILLIAMS FAS USDA

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: DEFAULTED COTTON CONTRACTS

REF: STATE 087711

1. EMBASSY HELD DETAILED DISCUSSIONS OF COTTON CONTRACT PROBLEM WITH BOARD OF FOREIGN TRADE (BOFT) ON APRIL 14. RESULTS OF THESE DISCUSSIONS AND OTHER COMMENTS RELATED TO THIS SUBJECT ARE SUMMARIZED BELOW.

2. OF THE 17 MILLS REMAINING IN DEFAULT, 8 ARE NOT IN OPERATION. THE SITUATION FOR EACH OF THE NINE OPERATING MILLS IS DESCRIBED BELOW.

3. TRIPOD - 600 BALES REMAIN IN DEFAULT. BOFT HAS INSTRUCTED MILL TO OPEN L/C BEFORE APRIL 30, OR PENALTIES WILL BE APPLIED.

TAY I - 11,800 BALES REMAIN IN DEFAULT. MILL HAS APPLIED TO BANK OF TAIWAN (BOT) FOR FINANCING BUT HAS NOT YET APPLIED TO BOFT FOR IMPORT PERMIT. BOFT WILL URGE BOT TO EXPEDITE APPROVAL OF LOAN APPLICATION. IF L/C'S NOT OPENED PROMPTLY AFTER LOAN APPLICATION APPROVED, BOFT STATES IT WILL INVOKE
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SANCTIONS AGAINST MILL.

CHUNG FU - 2,000 BALES IN DEFAULT. IMPORT LICENSE ISSUED BY BOFT ABOUT TWO WEEKS AGO. BOFT URGING BOT TO APPROVE LOAN APPLICATION. BOFT URGING BOT TO APPROVE LOAN APPLICATION. BOFT EXPECTS L/C'S FOR THIS 2,000 BALES WILL BE OPENED WITHIN 10 DAYS.

YUNG LONG - 4,000 BALES IN DEFAULT. NO PENALTIES IMPOSED BY BOFT SINCE SAME FIRMS HOLDING COTTON CONTRACTS REFUSED TAKE DELIVERY OF CONTRACTED TEXTILES. THIS DISPUTE NOT MATTER WHICH CAN BE ARBITRATED AS SUGGESTED BY DEPARTMENT SINCE CONTRACTS FOR TEXTILES INVOLVED. ONLY SOLUTION WOULD APPEAR TO BE LEGAL ACTION.

FU SHIN - 3,200 BALES IN DEFAULT. MILL UNDER FULL PENALTIES. BOFT CURRENTLY INVESTIGATING THIS MILL TO DETERMINE HOW IT CAN CONTINUE OPERATIONS. MILL REPORTEDLY SPINNING SYNTHETIC FIBERS EXCLUSIVELY BUT NO EXPORT PERMITS ARE BEING ISSUED TO THIS MILL FOR SYNTHETIC FABRICS. MUST BE ASSUMED THEY ARE SELLING EXCLUSIVELY FOR DOMESTIC CONSUMPTION OR EXPORTING ILLEGALLY UNDER ANOTHER NAME. BOFT STATES IT WILL APPLY ADDITIONAL PENALTY MEASURES IF CURRENT INVESTIGATION PROVES THEY ARE WARRANTED.

FU I - 2,500 BALES IN DEFAULT. BOFT HAS ORDER FU I TO REMOVE CLAUSE FROM L/C WHICH NOT ACCEPTABLE TO U.S. SUPPLIER. IF CLAUSE NOT REMOVED BOFT STATES THIS MILL WILL BE PLACED UNDER PENALTY MEASURES.

JOICING - 4,200 BALES IN DEFAULT. MILL UNDER FULL PENALTIES. BOFT WILL INVESTIGATE TO DETERMINE IF MILL IS STILL IN OPERATION, AND IF SO, HOW IT CONTINUES TO OPERATE UNDER PENALTIES. TRADE RUMORS INDICATE THAT OPERATIONS OF THIS MILL HAVE BEEN TAKEN OVER BY GROUP WHICH OWNS TWO OTHER MILLS WHICH ARE NOT UNDER PENALTIES AND THUS CAN IMPORT COTTON FOR SPINNING BY JOICING.

LONGMORE - 3,000 BALES IN DEFAULT. LISTED AS UNDER PENALTIES BY BOFT. HOWEVER, MILL HAS BEEN SOLD AND NOW OPERATES UNDER THE NAME CHUNG SHING FACTORY NO. 3 WHICH IS NOT UNDER PENALTY. CONFIDENTIAL

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BOFT LEGAL COUNSEL ADVISES THAT PAST DUE COTTON CONTRACTS NOT OBLIGATORY ON NEW OWNERS SINCE THEY ONLY BOUGHT A CERTAIN PERCENTAGE OF THE MILL AND NOT ENTIRE ASSETS.

YANG MING - 4,800 BALES IN DEFAULT. NOW OPERATING UNDER THE NAME "WINNING." SITUATION AS DESCRIBED FOR LONGMORE ALSO APPLIES TO THIS MILL.

4. ECON COUNS SENT ANOTHER LETTER TO Y. T. WONG (WANG I-TING) DIRECTOR OF BOFT, ON APRIL 16 STRONGLY URGING THAT THE GROC TAKE WHATEVER ADDITIONAL MEASURES ARE NECESSARY TO ENSURE THAT ALL MILLS IN DEFAULT PROMPTLY OPEN LETTERS OF CREDIT FOR PAST DUE CONTRACTED U.S. COTTON. COPY OF LETTER AIR-POUCHED SAME DATE.

5. EMBASSY HAS NO ILLUSIONS THAT ABOVE LETTER WILL PRODUCE ANY IMMEDIATE RESULTS. BOFT APPARENTLY BELIEVES THAT PENALTY MEASURES INVOKED WILL EVENTUALLY PRODUCE DESIRED RESULTS IN CASE OF OPERATING MILLS. BOFT IS AWARE THAT SOME MILLS UNDER PENALTY ARE CONTINUING TO OPERATE BUT HAS BEEN SLOW IN REACTING TO THIS SITUATION WHICH INVOLVES INVESTIGATIVE PROCEDURES WHICH ARE NEW TO THE AGENCY AND WHICH IT IS NOT STAFFED TO HANDLE. NEVERTHELESS, IN MEETING WITH EMBASSY THIS WEEK BOFT OFFICIALS STATED THAT THEY WOULD INVESTIGATE CASES IN ABOVE CATEGORY AND TRY TO RESOLVE PROBLEM.

6. AS EMBASSY HAS STATED PREVIOUSLY, IT BELIEVES THAT BOFT IS MAKING A REASONABLE EFFORT TO ENFORCE THE MEASURES NECESSARY TO ENSURE OPENING OF LETTERS OF CREDIT FOR PAST DUE CONTRACTED COTTON. THE REMAINING CASES INVOLVING OPERATING MILLS ARE COMPLICATED BUT MOST OF THEM ARE GRADUALLY BEING RESOLVED. A QUICK RESOLUTION CANNOT BE EXPECTED UNLESS THE USG HAS OTHER REASONABLE BUT STRONG PUNITIVE MEASURES WHICH IT CAN INVOKE, OF WHICH WE ARE THUS FAR UNAWARE. OTHERWISE, WE MUST BE PREPARED TO BEAR WITH THIS PROBLEM UNTIL THE SLOW-MOVING GROC BUREAUCRACY GRADUALLY RESOLVES EACH OF THE REMAINING CASES OF DEFAULTED OPERATING MILLS WHERE REMEDIES ARE AVAILABLE.

7. EMBASSY WILL REPORT FURTHER WHEN REPLY TO APRIL 16 LETTER TO BOFT RECEIVED.

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